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# AGRICULTURAL CREDIT ENHANCEMENT (ACE) PROGRAM

QUARTERLY REPORT Q2 FY 2012

JANUARY I – MARCH 31, 2012



*Abdul Qahar, selected as one of the “Best Commercial Farmers” for 2012 during the Annual Farmers’ Day Festival in Kabul. The award was handed out by H.E Mohammad Asif Rahimi, Minister of Agriculture Irrigation and Livestock.*

# QUARTERLY REPORT

## QUARTER 2, FISCAL YEAR 2012

Program Title: Agricultural Credit Enhancement Program

Contract Number: EDH-I-00-05-00004

Contractor: Development Alternatives, Inc.

Date of Submission: April 30, 2012

Contracts Officer Technical Representative: Ali Ahmad

Contracting Officer: Bruce McFarland

Chief of Party: Juan M. Estrada-Valle

## **ACE MISSION STATEMENT**

ACE's main objective is to manage the \$100 million Agricultural Development Fund (ADF) which will be established by a USAID grant to GIRA separately from the ACE activity. The program aims at increasing the availability of credit to small-scale commercial farmers and businesses that participate in the agricultural economy in Afghanistan. To achieve rapid disbursement of agricultural credit, ACE works with agribusinesses, farmers and participating intermediaries while using innovative lending products to overcome challenges and obstacles.

# CONTENTS

LIST OF ACRONYMS.....	5
EXECUTIVE SUMMARY.....	6
Component 1: Delivery of Credit Services.....	9
Component 2: Agricultural Modernization and Value Chain Development.....	23
Component 3: Coordination and Knowledge Management.....	26
Performance Management - ACE Progress against Targets .....	29
Administrative and Human Resources .....	38
ACTIVITIES FOR THE NEXT QUARTER.....	39
ANNEX I – Percentage of Loan Losses Resulting from ACE Lending Recommendations .....	40

# LIST OF ACRONYMS

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AAIDO	Afghanistan Almond Industry Development Organization
ADF	Agricultural Development Fund
ACE	Agricultural Credit Enhancement
ANSOR	Afghanistan National Seed Organization
ASAP	Accelerating Sustainable Agriculture Project
CMU	Credit Management Unit
DAB	Da Afghanistan Bank
FAIDA	Financial Access for Investing in the Development of Afghanistan
FSCAA	Farm Service Center Association of Afghanistan
FTE	Full Term Employment Equivalent
FI	Financial Intermediary
IIFCG	Islamic Investment Finance and Cooperative Group
GDA	Global Development Alliances
GIROA	Government of Islamic Republic of Afghanistan
GIS	Geographic Information System
Idea-NEW	Incentives Driving Economic Alternatives Project
KMF	Knowledge Management Facility
MAIL	Ministry of Agriculture, Irrigation and Livestock
NFI	Non-financial Intermediary
PMP	Performance Management Plan
TAFA	Trade and Accession Facilitation for Afghanistan
TO	Task Order

## EXECUTIVE SUMMARY

The ACE Program continues to promote the growth of rural economies, and therefore, support rapid growth in the agricultural sector throughout Afghanistan. In the second quarter of fiscal year 2012, the program approved 847 Million Afghanis in new loans to agribusinesses, farmers associations and non-financial intermediaries, reaching at a total of 1.8 Billion Afghanis (\$36.9 Million USD) in ADF loans.

At this point, ACE has approved a total of \$36.9 million USD in loans, and has disbursed \$18.9 million USD. The project has 70 loans of which, 28 are agribusinesses, 39 are non-financial intermediaries such as farmers associations and cooperatives, and four are financial institutions. ACE's repayments with interest stand at a total of \$6.2 million USD, maintaining a zero default rate. Currently, the project has directly benefitted a total of 10,780 farmers across the country.

ACE has become a center of innovation in the field of agricultural finance. With the need to respond to the unwillingness of the financial institutions to engage in agricultural lending, ACE made a strategic shift towards involving nonfinancial intermediaries in agricultural on-lending. This challenge was achieved through a series of innovations to reduce risk and to create cultural incentives for ADF financial products, specifically Islamic Financial products. Thanks to these innovations, approximately 30 percent of the ADF portfolio is through non-financial intermediaries and other on-lending agribusinesses.

In the last quarter, Afghan Growth Finance (AGF) emerged as an experienced financial partner to enable ACE/ADF to expand their business towards agricultural leasing in Afghanistan. The ADF Credit Committee approved a loan of 490 Million Afghanis (\$10 Million USD) to enable AGF leasing on behalf of the ADF to respond to the country's annual demand for an agricultural leasing market, worth about \$52 Million USD. The ADF loan will primarily address the demand for specialized agricultural equipment and machinery.

To establish a strong ADF credit operation and to keep tight control of lending activities, a financial system, which manages the daily operations, is crucial. To achieve this, ACE mobilized a team of three expatriate staff to install the MicroBanker Win financial software, host the program in the server and

## ACHIEVEMENTS

### JANUARY – MARCH 2012

- EXPANDED THE ACE/ADF LOAN PORTFOLIO TO 1.8 BILLION AFGHANIS THROUGH THE APPROVAL OF 12 NEW LOANS, FOR A TOTAL OF 847 MILLION AFGHANIS DURING THE SECOND QUARTER ONLY.
- DISBURSED 945 MILLION AFGHANIS IN ADF LOANS AND GRANTS IN 26 PROVINCES ACROSS AFGHANISTAN WHICH DIRECTLY BENEFITTED 10,780 FARMERS AND INDIRECTLY BENEFITTED 97,524 OTHERS.
- APPROVED A LOAN OF \$10 MILLION USD TO AFGHAN GROWTH FINANCE, A FINANCIAL COMPANY, TO INITIATE AGRICULTURAL LEASING IN AFGHANISTAN.
- SUPPORTED THE PARTICIPATION OF SEVEN ADF CLIENTS IN THE 15<sup>TH</sup> ANNUAL MOSCOW INTERNATIONAL EXHIBITION FOR FOOD INGREDIENTS, ADDITIVES AND FLAVORING FAIR.
- IN COLLABORATION WITH MAIL, SUPPORTED THE PREPARATIONS FOR THE FARMERS' DAY FESTIVAL AND THE AGRICULTURAL FAIR ON MARCH 21-23.
- TO RECOGNIZE AND PROMOTE INNOVATION IN AGRICULTURE, AWARDED THE BEST COMMERCIAL FARMER AND THE BEST VALUE ADDING COMPANY PRIZES TO 17 FARMERS AND 4 AGRIBUSINESSES FROM DIFFERENT PROVINCES.
- DESIGNED ONE INNOVATIVE LENDING PRODUCT, WAKALA WITH ARBUN, FOR A NEW ADF CLIENT IN JALALABAD
- APPROVED THE FIRST LOAN TARGETING ENTIRELY WOMEN SAFFRON GROWERS. THE LOAN OF \$155,000 USD DIRECTLY BENEFITTED 117 WOMEN IN HEART PROVINCE.
- ORGANIZED SIX AGRICULTURAL CREDIT SHURAS TO GENERATE AWARENESS FOR ADF LENDING OPPORTUNITIES IN THE PROVINCES OF BAMYAN, KANDAHAR, PAKTIKA, LOGAR AND WARDAK.

customize it according to ADF's operational needs and Sharia lending. Once this is finalized, the team will train the core Afghan technical staff in system operations, such as execution and monitoring of disbursements and repayments, while also maintaining a standardized accounting system.

Given the growth of ADF portfolio with Sharia-compliant loans, the project has hired an Islamic Lending expert who has been very active at designing adequate documentations for the before and post disbursement stages. Several client's loan documentation and legal agreements have been revised, and also several capacity building activities on Islamic Finance for the ADF staff has been designed as well.

The project achieved the approval of the first loan to women borrowers through Ghoryan Women Saffron Association, a Herat based women organization which received a loan of \$155,000. The purpose of the loan is to purchase saffron flowers from women saffron growers, process, package and then sell the product in the domestic market. This loan has already directly benefitted 117 women in the region.

As an instrument of awareness with ADF lending opportunities, the Agricultural Credit Shura keeps expanding and travelling to new regions. In the reporting quarter, ACE organized six credit shuras in the provinces of Bamyan, Kandahar (2), Paktika, Logar and Wardak. Over 150 participants in the agricultural sector attended these events.

ACE's value chain strengthening unit continues to play crucial roles in both the technical assessment of credit applications and in the provision of technical support to ADF borrowers, while also promoting market opportunities. In this way, ADF borrowers have become partners and ACE seeks to strengthen their operations and assist them in penetrating new markets as a mechanism to help them succeed in their business efforts.

ACE supported a group of ten participants, representing seven ADF clients, in the 15th Annual Moscow International Exhibition Food Ingredients, Additives and Flavoring Fair in Russia. While the Afghan companies met with over fifty businesses interested in Afghan products, the pavilion supported by ACE received the "Best New Comer Award" over other participating countries.

The project supported the Farmer's National Festival for the second time this year, as well as the organization of Kabul Ag-Fair 2012, one of the largest and most important agricultural trade events in the country. To support the farmer's day celebration, ACE organized the selection of the 17 best commercial farmers representing distinct provinces and different agricultural crop categories, and also four 'best value-adding companies from Herat, Balkh, Nangarhar and the Central Region. The awards were personally distributed by H.E. Minister of MAIL, Muhammad Asif Rahimi. The project provided booths for 17 ADF clients to exhibit their products at the fair while also participating directly with two booths for the ADF and PAYWAND knowledge management facility. The MAIL Minister symbolically signed, on behalf of the ADF, the loan agreements between the project and the Bamyan Cooperatives, Laghman Farm Service Center and Helmand Farm Service Centre.

ACE continued with the regional value chain and policy activities with an edible oil-specific workshop in the city of Herat focusing on value chain growth, constraints, and market intelligence. Over 45 participants and actors along the edible oil value chain, including input suppliers, producers, processors, exporters, and representatives of the DAIL office and NGOs attended the activity and identified the main constraints to edible oil value chain growth.

ACE successfully completed the task of developing a Knowledge Management Facility, in collaboration with MAIL, which has a threefold purpose: 1) establish a repository of a variety of agriculture data collected by various organizations and agencies, 2) produce periodic publications and ad-hoc reports, and 3) disseminate agricultural information in formats that are useful to multiple audiences. The team has prepared a transition plan according to which MAIL/MIS department will take over and manage the Knowledge Management Facility.

To strengthen the capacities of the Afghan national staff to manage the ADF operations, the project is planning a series of training courses in subjects such as: lending, Islamic Finance and Agricultural Value Chain analysis. A study tour to Ghana on the management of agricultural information systems is planned for the MAIL/MIS department staff, whereas the project will also train MAIL/DAIL staff on data collection and value chain analysis.



## Component I: Delivery of Credit Services

*The delivery of credit services constitutes the core activity of the ACE project. For this purpose and in the absence of financial institutions interested to engage in agricultural lending, the project primarily partners with non-financial institutions and agribusinesses that on-lend to farmers.*

In the second quarter of fiscal year 2012 (January-March) ACE expanded the ADF portfolio to a total of \$36.9 Million USD. The project presented 16 loan packages out of which 12 were approved from the ADF Credit Committee meeting.

Table 1: ADF Credit Committee meetings' results

No. of meeting	Date	Borrower	Amount Requested	Decision
Clients Sensitive Information				

ACE continues to revitalize agricultural lending in Afghanistan through innovative lending mechanisms and by exploring new markets in the country. In the reporting quarter, the project achieved the approval of a new major loan for agricultural leasing to Afghan Growth Finance (AGF), a financial company with extensive experience in the Small Medium Enterprise (SME) market in Afghanistan. AGF will use the ADF loan of \$10 million USD to lease to the agricultural sector and entities involved in agricultural value chains in Afghanistan. The ADF loan specifically addresses the needs of the agriculture market for specialized equipment and machinery in Afghanistan. The demand for agriculture leasing in Afghanistan is estimated at \$52 Million USD annually and the ADF loan aims to tap into and help develop this market. AGF was chosen given its successful lending history and expertise in the SME market in Afghanistan. The company has lent \$31 million USD to date, with a successful track record of repayment that has allowed the funding to be re-lent to other creditworthy firms. AGF is a subsidiary of Small Enterprise Assistance Fund (SEAF), a global management fund with a mission to invest in SMEs in emerging markets and businesses underserved by traditional sources of capital. The new company, AGF Leasing, will address the needs of equipment financing in Afghanistan with long term lease tenure, which is largely currently unavailable in Afghanistan.

The loan will serve leases in 3 distinct agricultural segments: a) Small: \$2 million USD is assigned for equipment costing less than \$30,000 b) SME: \$1 million USD is assigned for equipment costing less than



**Left: View from the presentation of the AFG leasing case at the ADF Credit Committee Meeting. Right: View from the Logar Farm Service Center facilities, a recipient of a new ADF loan of \$100,000 to purchase agricultural inputs for 300 farmers.**

\$100,000 and c) Corporate: \$7 million USD with no restriction. The loan segmentation allows for a wider distribution of leases with an opportunity for small producers and a guarantee that at least 30% of the loan will directly benefit farmers and small producers. The loan has a nine-year tenure, serviced via two installments with a grace period of four years on principal. The loan is secured by the assignment of leases that AGF will generate in addition to an AGF/SEAF company guarantee. The loan is priced at 4% for the \$7 million USD corporate segment and 2% for the rest. The loan agreement specifies several loan monitoring aspects which help guarantee servicing of all market segments as designed in the loan agreement. AGF will provide 3 types of reporting to ADF which reserves the right to randomly select and inspect the lessees.

This loan is expected to significantly impact modernization and productivity of the agricultural sector in Afghanistan. It will service 181 leases and will benefit a total of 525,000 farmers and small producers. The most significant impact of the loan is the creation of a new market in five regions and surrounding areas: Kabul, Jalalabad, Mazar, Herat and Kandahar. A leasing market does not exist in Afghanistan today and the loan offers an opportunity to finance entities with no access to credit. Heavy equipment such as tractors and threshers will be available to farmers and small producers for the first time. Leasing also offers the benefit of long-term financing (3-10 years) which is not available in Afghanistan either. The advantage of long term financing for borrowers is that it includes significantly lower periodic repayment amounts, thus making borrowing more affordable. The vendor market for equipment and machinery also is expected to flourish with sizable side benefits. ADF and AGF Leasing will partner to apply an innovative approach to growing the leasing market for small equipment. The ADF will work closely with AGF Leasing to identify potential suppliers such as equipment manufacturers, farm stores and Credit Management Units. The approach is expected to strengthen ADF clients while also offering client prospects to AGF.

Additionally, the project achieved the approval of 11 additional loans and one extension, listed below according to their corresponding Regional Command.

#### **RC – North:**

- Qarizada Tomato Paste Company - \$1.5 million USD. This is a three-year loan to finance the purchasing of equipment such as steam and can-making machinery to increase the capacity of the company's production. The loan is expected to generate 800 direct and 1,000 indirect beneficiaries.
- Afghanistan Almond Industry Development Organization - \$800,000. The loan will support 1,149 almond growers in Kunduz, Balkh and Samangan provinces with fertilizers and agricultural inputs. AAIDO is a non-governmental organization established to promote the fresh and dry fruit industry of Afghanistan. The client has already successfully repaid its first ADF loan, and will provide training on new production technologies to its beneficiaries.
- IIFC Group (loan extension) - The existing loan of \$2 million USD was extended until December of 2014.

#### **RC – WEST**

- The Herati Cashmere and Skin Processing Plant - \$2.5 million USD. The purpose of the loan is to purchase 83,300 Kg of raw cashmere from the Herat region. The company would process



**Left: The representative of Ghoryan Women Saffron Association signing the Heads of Terms Agreement for an ADF loan of \$155,000 USD. Right: The association collecting information and informing their members on the ADF opportunity.**

and then sell it in the international market.

## **RC – EAST**

- Kunar Farm Service Centre - \$539,184. The purpose of the loan is to finance credit to farmer members of the center to buy agricultural inputs for the 2012 planting season. The loan is expected to generate 715 direct beneficiaries.
- Logar Farm Service Centre - \$100,000. The client will purchase working capital such as agricultural and veterinary inputs for about 300 farmers.
- Bamyan Cooperatives (new loan) - \$1,320,000. The loan will support the farmer members of 27 cooperatives with high quality seeds and fertilizers for the new planting season. ACE developed multiple criteria on the selection of the qualifying cooperatives and revised the quantities of fertilizers demanded by individual farmers.
- Laghman Farm Service Centre - \$151,275. The client a one-stop shop wholesale and retail agro-input supplier that provides an array of products and services such as fertilizers, seeds, agricultural tools and other equipments. The client will use the ADF loan to expand its business and provide agricultural inputs such as fertilizers, animal medicines, pesticides, sprayers and seeds, on-credit, to 645 farmers in six districts of Laghman province.
- Afghan Rice Mill - \$200,000. The company will invest in two plants, a parboiled rice plant, a dryer plant, and packing machines. With this new equipment, the company would be able to produce 400 bags of rice during an eight-hour shift. The loan will help the client to buy rice paddy from farmers, process it into rice and sell it in the local market.
- Apple Association - \$193,484. The purpose of the loan is to purchase agricultural inputs such as pesticides, fertilizers, and other tools to supply to farmers' unions. The loan will ultimately benefit approximately 400 farmers in Wardak province.

## **RC – Central**

- Afghan Growth Finance (AGF) - \$10 million USD. The company is located in Kabul but the loan will benefit agribusinesses across Afghanistan.
- Salahe Daikundiwal Brothers Agriculture Production and Services Co. - \$100,000. The loan will be used to purchase working capital and assets such as plastic sheeting for their greenhouses. Daikundiwal Green House



The project has a pipeline of \$18.6 Million USD, of which 31 loan packages of over \$14 million USD will be discussed in the ACE Technical Credit Committee meetings during the month of April.

### **Possible new ADF loans:**

- Tanin Herat Industrial Food Company is involved in the production of packed hamburgers and salted pickled cucumber using local raw materials and meat. The client requested a loan of \$500,000 for three years to purchase different types of vegetables and beef from local farmers/cattle raisers to increase production of hamburger and salted cucumber and build better facilities.
- Rabia Mariam Handicraft Company based in Balkh province is requesting a loan of \$230,000 to purchase raw materials such as cocoons from 2,000 women in the northern region, process it to silk and produce scarves, shawls, rugs etc.
- The Nangarhar Nursery Growers Association in Jalalabad is interested in a loan of \$100,000 to on-lend to their members for the purchase of various inputs to run the plant nurseries. The association will provide inputs like seeds, seedlings, plastic bags, buds, labels, wheelbarrows, generators, shade-nets, scissors, budding knives, DAP and Urea Fertilizer and pesticides to its 87 members.
- Abdul Moin Nursery Growing Company is producing fruit and forestry trees on 30 Jeribs of land in the Arghasan and Arghandab districts of Kandahar. The company supplies its products throughout the region and sells them to the NGOs, government entities and the local community. The company requested a loan of \$100,000 to further expand its business.
- The Tokhee Cotton Producing Company requested a loan of \$100,000 to further expand their business. The Company is currently processing the seed cotton into lint, oil, soap and cake; and currently purchases the seed cotton from the farmers in Helmand through the local traders. It sells its products in Kabul, Ghazni, Helmand, Farah and Herat provinces and supplies the lint to Pakistan. Khushdawam Food Processing Factory requested for a loan of \$300,000 to buy machinery, raw material, and packaging material.
- Khushdawam Food Processing Factory has 30 full-time employees and produces snacks and supplies for the Southern provinces of Afghanistan. It buys the raw material from a flour mill located in Herat province. The company has requested for a loan of \$300,000 to buy machinery, raw material and packaging material.
- Hussain Zada Agriculture Services Company is engaged in implementing and supplying agricultural projects such as agrochemicals, agricultural machinery, improved seeds production, veterinary medicines, equipment and fertilizers. The company is requesting for a Sharia loan of \$2 Million USD to import DAP fertilizer and sell it in the open market through wholesalers across the country.
- Nangarhar Edible Oil Producers Cooperative, registered with MAIL, owns a seed cotton processing plant located in the Jalalabad Industrial Park. The processing plant's capacity is 636 MT of oil and 190 MT of soap and cotton per year. The cooperative requested a loan of \$600,000 to purchase raw materials from eight seed cotton producer cooperatives.

## **Credit Administration and Loan Disbursements and Repayments**

Since its inception, it was anticipated that the ADF would be established and GIRoA would disburse lending funds before the temporary fund allocated to DAI would be expanded. Despite the best efforts of ACE/DAI, USAID, and the GIRoA counterparts, this is still not the case. In February, ACE submitted a package of ADF approved loans to be disbursed on-budget by MAIL through the Ministry of Finance. After several regular meetings between ACE and GIRoA representatives to expedite the process and achieve the first successful disbursement to the ADF clients, the Ministry of Finance displayed a significant lack of technical experience in disbursing loans through paying donors. In the beginning of March, the project met with representatives of the Finance Department at MAIL, who facilitate the



process of ADF loan disbursement on-budget through the Ministry of Finance. Both teams discussed requirements demanded by the MoF such as client collaterals, disbursement currency and installments, and timelines of disbursements to expedite the process. Despite the efforts, until now, MAIL has not succeeded to disburse any of the loan packages through the budget. While negotiations between USAID and the Ministry of Finance and MAIL on the establishment of disbursements processes continues, ACE estimates that it will take at least six to eight weeks for these negotiations to be finalized.

Until now, the project has disbursed \$18.9 million USD in ADF loans, of which, \$3.1 million USD were disbursed in the reporting quarter. Table No. 4 in Page 21 gives a full view of the disbursements. In Bamyan, the Credit Management Unit (CMU) has accounted for a total of \$272,349 which constitutes 100% of the original loan principal being repaid. This achievement has enabled the project to approve the second loan for the Bamyan coops. The ANSOR CMU has successfully collected \$2.8 Million USD in early repayments from the various seed enterprises. The CMU team is working diligently with the ANSOR management to accurately track the repayments from NGO's and other donor organizations to the member seed enterprises. For the EFGA loan, the CMU has collected \$255,907 from farmers in the Eastern Region and are proactively engaged in completing the repayment. Until now, total ADF repayments stand at over \$6 Million USD, while maintaining a zero default rate.

In terms of building a strong credit administration unit, during the reporting quarter ACE made substantial inroads with the establishment of the ADF portfolio management system. A team of three short-term consultants joined the project in mid-March to work on the installment and customization of Micro Banking System (MBWin). MBWin is an integrated banking system with full functionality for loans, savings and current accounts, time deposits and shares. The system is widely used by both microfinance institutions and banks. It has an integrated general ledger and customer information and report modules. The team finalized the single chart of account for ADF System with Sharia and Conventional Lending with a multicurrency system (USD and AFN) and is now completing a set of tailor-made reports based on the needs of the project. Once the system is finalized, intensive training will be provided to its users.

The integrated financial system will move ACE/ADF toward operational capacity that reflects overall "best practices." The system will support the long-term sustainability of the ADF once transitioned to MAIL.



### Islamic Finance

Benefitting from an in-house Islamic Finance consultant, during the reporting period, the project paid attention to capacity building in Islamic Finance, credit policies and procedures for Sharia lending, client

documentation, and the establishment of a Sharia Advisory Board. In the last quarter, the following actions have been taken to address these issues:

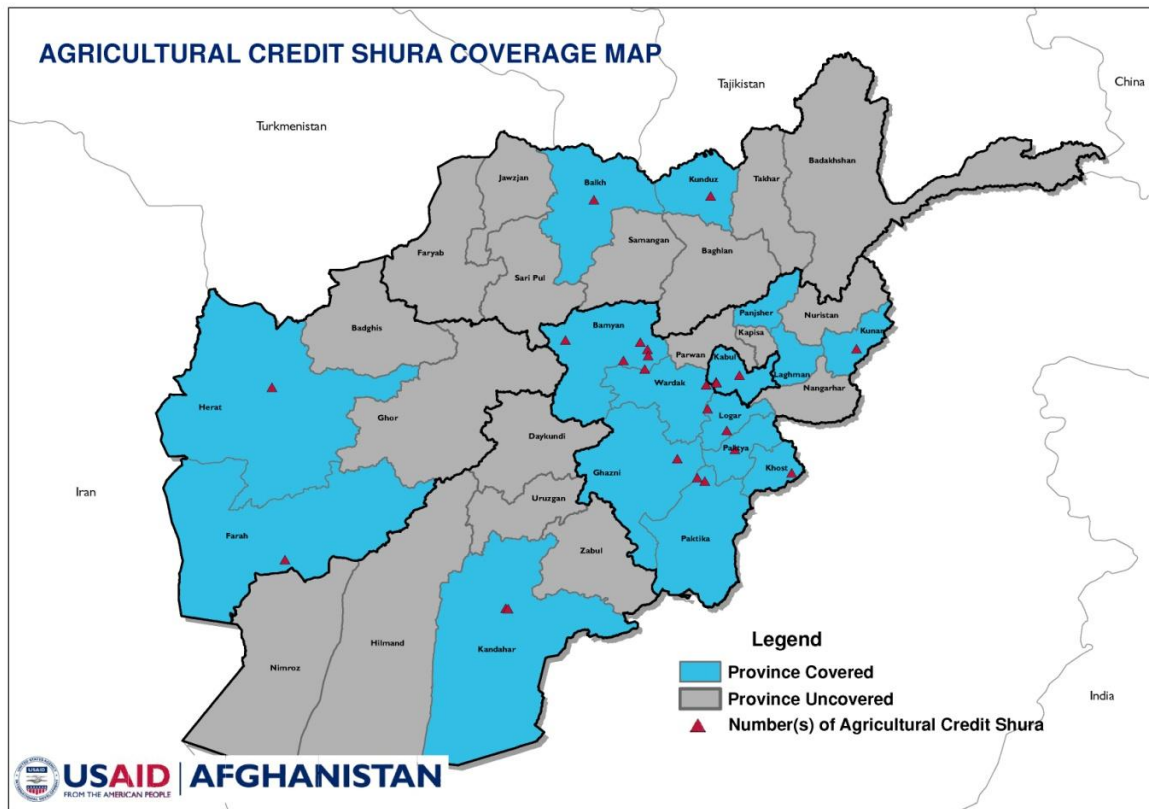
- Capacity Building - Two distinct groups have been identified. Credit Administration and Value Chain Strengthening units will receive a one-day introduction to Islamic Finance Training which constitutes of classroom training. The lending officers will receive a hands-on training based on a combination of a fictitious case study, an actual case and an exam. Training plans have been finalized and all training will be conducted early in the next quarter.
- Sharia Advisory Board (SAB) - The SAB is an independent body safeguarding the Sharia compliance of the ADF offering in this area. Their terms of reference and policies have been completed. The SAB recruitment process has started and will continue into the next quarter.
- Policies and Procedures - A specific policies and procedures document has been finalized for Sharia compliant lending which will be translated into Dari. Both the Dari and the English versions will be circulated for approval to the respective boards.
- Background material - For each of the transaction types that will be offered by ADF, a 3-4 page document has been produced that provides an overview of the structure, proof of permissibility and the contract elements. The purpose of these documents is to provide Lending Officers with all the high level information required to discuss the possibilities with the client and answer any particular questions.
- Client documentation - The client documentation should be easy to understand by clients and serves as the basis of all other transaction documentation. For each of the transaction types that will be offered by ADF, a standard form has been produced and implemented.

Additionally, in the last quarter ACE designed Wakala with Arbun, as a new Sharia compliant financial product. The product is currently implemented with Afghan Rice Mill in Jalalabad. In the wakala transaction, ADF appoints the client to undertake a specific service. A specified estimated return is due to ADF with any additional return on the service due to the client as an incentive for his efforts. The client has the obligation to inform ADF as soon as he realizes he will not be able to generate the expected return. ADF will then be able to decide whether to withdraw or continue. The wakala with arbun transaction is similar to the wakala with the difference that the client agrees to make an advance payment to the farmers he purchases the raw materials from. The final price of the purchased raw material will be based on the price at the mandawi taking into consideration other factors such as transportation. This transaction type has not previously been applied by ADF or by the Afghanistan financial services industry.

### **Agricultural Credit Shuras**

During the reporting period, ACE conducted six Agricultural Credit Shuras in the provinces of Bamyan, Kandahar (2), Paktika, Logar and Wardak aiming at reaching out at larger numbers of potential clients and raising awareness on ADF lending opportunities across Afghanistan. The map below shows the provinces in which the Agricultural Shura has been organized thus far.

Map No 1. Provinces covered by the Agricultural Credit Shura



Approximately 150 participants such as farmers, members of cooperatives, agribusinesses and agro processors, representatives of NGOs and media attended the events. All the Shuras were organized with close collaboration with USAID. The ACE team introduced the ADF lending possibilities, the Sharia compliant Islamic lending products, and the value chain assistance through which ACE/ADF seeks to strengthen their clients' operations as a mechanism to succeed. By doing so, the project increases the ability of their borrowers to succeed.



**Left: View from the Agricultural Credit Shura organized in Dara e Foladi in Bamyan Province on January 17, 2012. Right: View from the Agricultural Credit Shura organized in Kandahar Province in collaboration with USAID and Flag International.**

## ACE and ADF Grants

In the last quarter, the ACE project signed an Agriculture Modernization grant agreement with the Afghanistan Almond Industry Development Organization (AAIDO) to support the participation of

Afghan traders in the 15th Moscow International Exhibition Food ingredients, Additives & Flavoring Fair. The total cost of the activity is \$52,260 and ACE covered the expenses up to \$42,350. An ACE grant was approved for PACE Group to support the participation of a selected group of traders in the 7th Annual Uzbekistan International Exhibition & the 18th Annual Azerbaijan International Foods Exhibition. The value of the grant is \$149,824.30. In addition to this, a new ADF challenge grant for \$72,000 was approved for the establishment of a CMU for the second loan to AAIDO. The purpose of the grant is to provide operational support to the AAIDO Credit Management Unit in Kabul and hire three regional loans officers for the Kunduz, Balkh and Samangan provinces to properly manage the ADF loans. The proposed grant will enable the association to establish a proper credit management system, track repayments and minimize risks.

The program completed the second phase of the Basic Accounting & QuickBooks Training to Farm Store Service Centers (FSCs). Four FSCs participated in a 15-day training conducted by FSCAA trainers, and received a package of a laptop computer with QuickBooks software and a printer. The training will allow ADF borrowers and FSCs to record their transactions in QuickBooks and manage their business more efficiently, while keeping tight control over disbursements and repayments. The FSCs will also be able to generate good financial information and reports with the upgraded accounting system.

The project has disbursed \$80,431 to the Eastern Region Fruit Growers Association (EFGA) Credit Management Unit (CMU) under an ADF Challenge Grant of \$127,497 for staff salaries and operational expenses. The ADF innovation grant of \$35,126 for M-PAISA mobile money for EFGA was disbursed to \$24,725. The project disbursed \$31,040 as a final payment to the Pace Group for the submission of a final report and a media coverage report of the 31st India International Trade Fair (IITF).



Table 2: ACE/ADF Grants

No	Business Name	Province	Grant Purpose	Grant Type			Grant Period		Total \$Approved	Disbursed \$ value	% Paid
				ADF		ACE	Start Date	End Date			
				Challeng e	Innovati on	Ag Modernizati on					
Clients Sensitive Information											



**Left and Right: View from the M-PAISA Training on Mobile money and mobile distribution to EFGA farmer members in Sarkhrood District in Nangarhar province.**

The team is working on several new grant proposal and concept notes, some of which include:

- An ACE Agricultural Modernization Grant of \$47,000 to support the Ghoryan Women Saffron Association with modernized packaging machinery that would reduce losses due to packaging and help develop a marketing strategy to reach international buyers.
- An ACE Agricultural Modernization Grant of \$119,000 to support the Javid Afghan Wheat Thresher Company in Jalalabad with marketing and promotional materials, as well as to set up innovative demonstrations for the wheat and rice threshers manufactured by the company.
- An ACE Grant to develop financial and business management capacities for women cooperatives in Afghanistan. These service targets women-managed cooperatives by providing customized on-site business and financial management training.
- An ADF Challenge grant of \$96,300 to ACSP Afghan Credit Support Program to engage Mennonite Economic Development Associates (MEDA) to assist them in establishing a comprehensive medium-term action plan focusing on the technical support and capacity building for ACSP's roll-out into rural SME operations. ACSP and MEDA will then support First Microfinance Bank (FMFB) in planning its roll-out into rural SME operations in two pilot provinces. ACSP and MEDA will develop a market research report for rural areas in one or two pilot provinces of Afghanistan, with an emphasis on rural and agricultural lending in these provinces. ACSP and MEDA will also develop a business strategy for FMFB's rural SME finance and will design and support the implementation of a pilot lending program in the selected provinces.

## Gender Issues

ACE, in partnership with United Nations Development Program's (UNDP) Gender program and MAIL's Home Economics Directorate, conducted an assessment of 44 Women Cooperatives in 15 provinces. The main objective of the assessment consisted of identifying functional cooperatives run by women, as well as to assess their current needs in terms of capacity building as a way to upgrade them to a point in which they could become ADF borrowers. The study was carried out by Kaweyan, a women-owned business development organization with vast experience in rural development.

Based on the findings of the needs assessment survey, the cooperatives were established with support from local leaders and donor organizations, and members do not understand the socio-economic impact of the cooperatives, nor do they realize the opportunities available through these organizations. These findings, along with a wide range of constraints that women-owned co-operatives face – such as lack of skills, organization and information, inadequate access to market among others which were identified by the survey teams – make it imperative to undertake an intensive capacity development program for the members of the cooperatives which were assessed. This would serve a twofold

purpose: first, it will empower the women of the cooperatives, through appropriate skills acquisition, which would enable them to increase the value added to their products resulting in increased productivity and income, and second, it would facilitate more equal participation in the marketplace with male counterparts extending the women cooperatives' base of operations.

Against this background, ACE finds it necessary to continue with the momentum of the initial needs assessment survey and support the capacity of the women-owned cooperatives by adopting the following strategy:

- a) Increase the competitiveness of the cooperatives through achieving economies of scale and value addition by collective action and;
- b) Diversify their production base and improve their professional skills in managing the cooperative as a channel for economic empowerment.



To achieve these key goals, a schedule of capacity development programs needs to be developed by the Home Economic Department of the Ministry of Agriculture, Irrigation and Livestock (MAIL) so that the necessary skill development inputs can be provided to the target groups in a timely manner. The specific topics of the programs can be finalized in discussion with the stakeholders involved in the needs assessment survey.

Additionally, the ACE Gender Unit is looking into organizing a Capacity Building Program for Women Cooperatives through ACE Grants which is consistent with USAID's policies regarding the engagement of women in economic development activities. To achieve this, in the last quarter ACE finalized concept notes for the following programs:

- a) Technical Visit to Indian Cooperatives
- b) Business Development and Financial Management for Five Regional Cooperatives

The proposed activities are aimed at building the capacity of women organizations to use and administer credit, and constitute the first step towards becoming ADF clients. The main objective of this exposure visit will be to understand the Self Help Groups model of Livelihoods creation – formation, sustenance, management and development of SHGs to become meaningful vehicles to address vulnerable population through Self Help Groups. The participants would be exposed to the concept, structure, dynamics, management and sustainability of Self Help Groups; (1) Linkages with various stakeholders; (2) Empowerment through entrepreneurship and (3) Livelihood creation. Once the participants return back to their respected provinces, they will receive periodic on-site mentoring and guidance from the hosting agency in India.

The team met with several women potential clients, such as the Parwan Women Agriculture & Handicraft Association, which consists of eight cooperatives and 800 women farmers. The association provides agriculture inputs, technical training, credit and marketing to its members and is interested in an ADF loan. The agency has extensive experience in providing micro-credit to its members through

Women for Women organizations. ACE will provide a business development and financial management course for five regional cooperatives and a study tour to visit women cooperatives in India.

## Internal Audit and Compliance

In the last quarter, the internal audit and compliance unit underwent some structural changes to better respond to the needs of an expanding ADF loan portfolio. ACE/ADF Internal Audit Unit introduced pre-qualification assessment before loan approval. The table below shows list pre-qualification reports for the already approved loans or the ones being recommended for approval. The team also conducted pre-qualification reports for other loan packages currently in the pipeline/

*Table 3: Pre-audit reports*

Pre-Qualification Reports		
No	Client	Status of the Loan
1	Logar Farm Services Center	Approved
2	Herati Cashmere and Skin Plant	Approved
3	Laghman Farm Services Centre	Approved
4	Afghan Rice Mill	Approved
5	Salehe Dekundiwal Brothers Agro Productions and Services Company	Approved and disbursed
6	Kunar Farm Services Center	Approved and disbursed
7	Rabia Marim Handicraft Company	Forwarded to ADF Credit Committee

The team carried out two financial audit reports, after disbursements, for the Dr. Abdul Wakil Farmers Association and Afghanistan Almond Industry Organization (first loan).





## CASE STUDY

# Agricultural Credit: A Smart Investment

**Agricultural credit has shown a direct impact on yields and income of Afghan farmers.**



*Potato harvesting in Bamyan*

**CHALLENGE:** Potato production is the mainstay in Bamyan province. Until 2010 productivity was low due to two fundamental factors: the high price and questionable quality of fertilizers available in the province, and the use of recycled and low quality seed. While farmers were generally aware of the potential benefits of the appropriate use of fertilizers and the use of certified seed, they lacked the financial capacity to purchase them, and credit was simply not available.

**INITIATIVE:** The Agricultural Credit Enhancement program provided agricultural loans to 7 cooperatives in Bamyan, relying on a set of institutional innovations developed by the program to manage credit risk. The loans allowed commercial potato producers to purchase certified seeds and fertilizers, taking advantage of collective action as a way to reduce the cost of inputs. In addition to the loans, the ACE program provided the borrowers with market contacts and facilitated sales transactions as a way to ensure the success of their farming operations.

**RESULTS:** Agricultural credit had a positive and significant impact in the yields and income of borrowers, as compared with non-borrowers. ACE borrowers realized 22.3 percent higher yields, 39 percent lower production cost and sold their high-quality produce at a price 8 percent higher.

Agricultural credit is unleashing the potential of Afghan agriculture, enabling farmers to put in practice modern production technologies and access high-value markets. Since July 2010, USAID's ACE program has provided credit to over 11,000 farmers in 24 provinces of Afghanistan using innovative approaches to financial intermediation and risk management.

Table 4: ADF LOANS APPROVED AND DISBURSED TO END BENEFICIARIES

SN	Borrower	Loan Type - NFI, FI, or Agribusiness	Approved	Province	\$ Loans Approved by MAIL & USAID*	Disbursed Loan Amount	Repaid Loan Amount (with interest)	Direct Beneficiar ies	Status
Clients Sensitive Information									

TABLE 5: ADF LOAN PIPELINE

Loan Pipeline Tracker Report									
<u>Borrower</u>	<u>Loan Type</u>	<u>Region</u>	<u>Loan amount requested</u>	<u>1st Visit</u>	<u>Other Visits</u>	<u>Next Mtg</u>	<u>Regiona l Office</u>	<u>Loan Application Stage</u>	<u>Notes and Comments</u>
Clients Sensitive Information									

## Component 2: Agricultural Modernization and Value Chain Development

### Value Chain Strengthening

*The purpose of ACE's Value-Chain strengthening unit is to provide technical support to the lending operations, as well as to ADF clients. The unit leads the technical assessment of production; processing and marketing activities proposed by loan applicants and also provides technical assistance to ADF borrowers.*

The program supported the agricultural value chain strengthening through four complementary activities:

- 1) Bring specific value chain actors together to promote removal of value chain constraints;
- 2) Promote increased market opportunities for Afghan agricultural products;
- 3) Recognize and promote innovation in the agricultural sector;
- 4) Provide technical reviews and assistance for the ADF loans.

First, ACE organized the Edible Oil Value Chain, Market information and Policy Workshop in Mazar-e-Sharif on March 5, 2012. Forty Five actors along the edible oil value chain including input suppliers, producers, processors, exporters, DAIL staff and NGO representatives involved in the edible oil sector in northern region attended the activity. In the first session, the ACE team explained the different components of the edible oil value chain, existing market information on the edible oil and market opportunities. The workshop focused on the edible oil sector overview and specific oils such as cotton, sunflower, soybeans and olive oil; exports of Afghanistan in the last five years, and estimated annual productions per province in Afghanistan. The team introduced PAYWAND – the Agricultural Knowledge Management facility established by ACE and its relevance for the provision of agricultural market intelligence. In the second session the participants worked in groups to identify the constraints to growth in each component of the value chain and present it to the other attendees. ACE will organize a second workshop in the region to discuss the constraints with relevant authorities and propose solutions.

Second, a group of ten clients representing seven ADF borrowers and three ACE technical staff attended the 15th Moscow International Exhibition Food ingredients, Additives & Flavoring Fair in Russia in March



**Left: Representatives of AAIDO meeting with potential buyers from the U.S. at the Food Ingredient Exhibition in Moscow. Right: Afghan business delegation meeting with the Commercial Counsel, of the Embassy of the Islamic Republic of Afghanistan in Russia, Mr. Obaidi on March 12th, 2012.**

12-15th. The Food Ingredient Exhibition has been promoting investments and assisting international companies to expand into rapidly developing markets for 14 consecutive years, while Afghan companies never had a chance to participate. More than 7,000 industry professionals visit the exhibition annually in search of new ingredients to improve product quality, create new products, and improve production cost-effectiveness. The Afghanistan business delegation had reserved an exhibition space and booths of 24 square meters to display the Afghan products, meet with other participating businesses and visitors, and identify trade potential in terms of products, quantities and supply destination. The Afghanistan pavilion received the “Best New Comer” award among other participating countries.

Each of the participating Afghan companies assisted by ACE, met with over 20 businesses from Turkey, Russia, the United States, Uzbekistan and Romania interested in products such as almonds, pistachios, walnuts, red and golden raisins, figs, saffron, almond oil, pomegranates and green maize. Participating Afghan companies such as Tak Dana and AAIDO will prepare price lists for the upcoming season and send it to their potential buyers. The Afghan companies did not only look for potential markets to sell their product but also for potential suppliers for packaging materials, tools and equipment which would benefit the Afghan food industry. The project is supporting the clients to follow up with the contacts obtained in Moscow and facilitate trade deals.

Third, on March 21-23, ACE supported MAIL for the organization of the Annual Farmers’ Day celebration and the Kabul Agricultural Fair, one of the largest and most important agricultural trade events in the country. To recognize innovation in agriculture, throughout the last two months, ACE in collaboration with other USAID-funded agricultural projects established a selection committee to identify several ‘best commercial farmers’ and ‘best value adding companies’ across Afghanistan. During the farmers’ day festivities, the Minister of MAIL, H.E. Mohammad Asif Rahimi delivered, on behalf of the ACE program, 17 awards to ‘best commercial farmers’ representing distinct provinces and different agricultural crop categories. Additionally, the Minister delivered four awards to the ‘best value-adding companies’ from Herat, Balkh, Nangarhar and the Central Region. The winners received prizes, certificates and a package of agricultural tools, seeds and fertilizers. This activity was primarily targeted to reward innovation in agriculture at different levels, capitalizing on the power of public recognition and striving to motivate other farmers and agribusinesses.



**Left: Minister Rahimi of MAIL delivering the “Best Commercial Farmer” prize to Mr. Abdul Qahar. Right: View from the booth of ANSOR, one of the biggest ADF clients at the Kabul Ag-Fair, supported by the ACE program.**

To enable the ADF clients to exhibit their products at the Kabul Ag-Fair 2012, ACE supported their participation at the fair and reserved separate booths for the 17 ADF clients. The farmers had an opportunity to learn about new agricultural technologies, crop production management practices (pre and post harvest) and to meet with MAIL senior management and discuss specific sector growth constraints. The project reserved two booths at the fair for the Agricultural Development Fund, as a means to present the ADF lending opportunities to visiting customers; and for PAYWAND, the agricultural knowledge management facility established by ACE. The fair offered an excellent opportunity



to launch and present the market information products and market intelligence, such as PAYWAND website, hosted with the website of MAIL, crop specific market briefs, trade reports and PAYWAND brochures. Overall, the project's direct participation in the Ag-Fair contributed to increased public awareness on ADF lending opportunities for the agriculture sector, highly underserved by the market. Additionally, to further enhance the public image of ADF, as a non-bank financial agency established with MAIL, during the Farmers' Day celebration, the Minister of MAIL symbolically signed on behalf of ACE/ADF new loan agreements with Bamyan Cooperatives, Laghman Farm Service Center and Helmand Farm Service Centre.



Fourth, during the reporting quarter the project conducted several value chain technical reviews for the loan packages reviewed by the ACE Technical Review Committee and the ADF Credit Committee. Some the loan packages reviewed by the team include:

- Logar Farm Service Center – The team screened the list of pesticides to be procured with the lending funds against their registration with the U.S. Environmental Protection Agency (USEPA) to ensure compliance with USEPA regulations.
- Kunar Farm Service Center – the team completed the technical review. The loan is requested to finance wheat production. All the inputs required for this loan were technically reviewed and the listed pesticides planned for purchase were checked against the USEPA registration and found to be on the list of “General Use Pesticide” (GUP), therefore in compliance with the regulations.
- 27 Bamyan Cooperatives - a new ADF loan to support their farmer members with high quality potato seeds and fertilizers on credit. The team assisted the cooperatives to identify the needs of their constituent farmer members for credit. A total of 67 cooperatives submitted the requirements and the team prepared the information to suite the ADF established criteria for qualification. According to the information provided by each cooperative thus far, 27 of them meet the ADF criteria and qualify for a loan. The project reviewed the input quantities requested by on credit, through the ADF, by the farmers. The loan of \$1.3 million is structured to finance the commercial farmers who produce surplus quantity of potatoes to sell in the local and regional market.
- Sayel Potato Chips Producing Company- the project reviewed the potato chip business in the country, and also evaluated the company's current position in this market. The team suggested the following steps before presenting the case to the ADF Committee: construction of new buildings for chips production and identifying possible sources for local potato from Afghanistan. The team facilitated a negotiation between a chip producing company and potato farmers from Bamyan to grow the potato varieties that are suitable for chip production. One cooperative from

Bamyan agreed to buy potato seeds from Sayel Chips Company and to plant one Jerib this year for trial. If successful, more cooperatives in Bamyan will plant this variety in the future and will sell the potatoes to chip producing companies which till now have been heavily relying on imported potatoes.

- Salahe Dekundiwal Brothers Agricultural Production and Services Co. - The team focused on the technical feasibility of the investment to cultivate cucumbers under controlled condition in 22 greenhouses. The potential of the hybrid seeds to produce high quality cucumbers at higher yields was assessed, and the team reviewed the marketing strategy of the company and the compliance with the environmental requirements. The technical review concluded that the investment was profitable and that it qualified for the loan.
- Afghanistan Almond Industry Association – The loan purpose is to finance growers, the inputs and tools needed to manage their almond orchards. ACE assisted AAIDO in the process of collecting farmers' requests for agricultural inputs on credit and technical information required to process the application.
- Taje Talayee Poultry in Mazar - The team gave several recommendations on the case to make clear the production plan for the feed mill and to link the farmers as beneficiaries to this project to meet MAIL's goals at the ADF Credit Committee.

The project prepared a concept note and activity plan for Mazar-e-Sharif Business Fair which will take place on April 15-18, 2012. Nine ADF clients will participate from various regions of the country to exhibit and promote their products during the fair. The project is planning to support the activity through Golden Sponsorship which will provide an outstanding opportunity to promote the ADF and reserve seven booths for ADF clients in the fair. The team is also exploring opportunities for the participation of ACE clients in international trade fairs and has already identified a few in Turkey, Tajikistan and Azerbaijan. Through ACE grants, the project will support the penetration of Afghan agricultural businesses to regional and international markets.

## Component 3: Coordination and Knowledge Management

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*The Knowledge Management Component aims at integrating production and market information currently being generated by an array of organizations, and transforming it into market intelligence applicable by diverse audiences within the agriculture sector, while building the capacity of MAIL staff to manage the system.*

In terms of market information systems and knowledge management, the ACE project completed several tasks and products, achieving a number of successes during the reporting quarter.

- 1) The project completed the Agricultural Trade Report for Quarter 3 FY1390. "Agriculture trade flows reached 24,945 million AFN (516.1 million USD) during the third quarter of 1390. They are substantially higher than the second quarter of 1390, due to higher import and export values. Agriculture trade flows have slightly decreased, by 1.7% as compared to the same quarter in 1389. Imports account for 92.1% of the trade flows during this period. The trade deficit of the period October – December 2011, is much higher than during the second quarter of 1390 being valued at 21,013.9 million AFN (434.7 million USD) mainly due to a the stronger impact of imports on the deficit, despite the increase of both imports and export values".
- 2) ACE developed a capacity building program for MAIL/MIS staff which will eventually take over the PAYWAND operations. The team has prepared a training program with two separate modules on "Data Analysis and Interpretation" and "Statistics and Economic Writing" for 20 MAIL civil

servants, which has already been discussed and agreed upon with Mr. Abdul Munir, the Head of the MIS unit at MAIL.

- 3) The project prepared market information data for the edible oil value chain in the framework of the Edible Oil Value Chain and Market Information Workshop that took place in Mazar-e-Sharif in the beginning of March. The team presented the PAYWAND database briefly focusing on the usefulness and the value of market information through practical examples.
- 4) The team prepared a comprehensive report focused on agricultural trade between Afghanistan and Russia, as background to the participation of representatives of eight ADF clients in the 15th Moscow International Exhibition Food ingredients, Additives and Flavoring. The purpose of this report was to provide insight on: 1) main agriculture commodities exported; 2) main agriculture commodities imported; and 3) trade dynamics in years. Agriculture trade flows with Russia reached \$29.8 million USD during 1389 (March 2010 – March 2011) accounting for 2 percent of agriculture trade flows of Afghanistan. The trade deficit was valued at 8.3 million USD while the export import ratio at 56 percent. Agriculture imports account for 64.1 percent of agriculture trade flows with Russia.
- 5) The project designed a wheat calendar for most of the provinces including all stages from planting to harvest, making use of crop stage data collected from Agromet Project. The rice cycle and corn cycle is available in fewer provinces. The calendars will be verified with ADF clients before the final publication. These production calendars will be useful for the identification of market windows of opportunity for individual provinces.
- 6) The project presented “PAYWAND” in the Agriculture Fair on Farmer’s Day Festival in Kabul. Several market intelligence products and promotional materials were prepared for the occasion and distributed during the fair. This action will be followed by similar ones in order to increase the visibility and popularity of the system in targeted audiences.
- 7) The team worked intensively to organize a study tour for MAIL staff to Ghana in late April 2012. The objective of this activity is to expose MAIL/MIS representatives to successful market information systems in a country with similar challenges and development stages, prior to the transfer of PAYWAND to MAIL. Three employees of the Management Information Systems closely involved in PAYWAND transfer and operation process, in managerial positions or with relevant technical expertise will participate in the tour. The participants will gain insight about MIS applications and operations schemes, as well as dissemination techniques. Until now, the team has identified two platforms in Ghana, Esoko and MFarms, which have both confirmed their availability to host the group and share their experiences.
  - a) Esoko (formerly Trade Net) begun in 2005 with funding from USAID/West Africa’s MISTOWA project. The platform was a fast response to the explosive growth of cellular services in Africa. Esoko has substantially enhanced its technical platform and business model and is providing services based on a franchise/subscriber model to several countries in Africa. It collaborates with several USAID projects including projects in Ghana, Cote d’Ivoire and Malawi. The Esoko platform provides automatic and personalized price alerts, buy and sell offers, bulk SMS messaging, stock counts and SMS polling.
  - b) MFarms, an IFDC and AGRA initiative: Farmers in Northern Ghana are benefiting from this new program aimed to increase their earning potential. The program, launched by the Alliance for a Green Revolution in Africa (AGRA) and the International Centre for Soil Fertility (IFDC), will create more sustainable markets where farmers can sell their produce for a profit. The three-year project will focus on easing the flow of produce from farms in Ghana’s Northern, Upper East and Upper West regions to commercial buyers and processors of maize, rice, sorghum and soybean in Ghana. As lead implementer, IFDC will build alliances with local partners to provide farmers with skills to improve their farm productivity and business and marketing services to ensure sustainable supplies of high-quality produce for industrial buyers.

- 8) Since the beginning of the fiscal year, ACE has been actively engaged in the preparation a transition plan for PAYWAND, the agricultural knowledge management facility. In perpetual consultations with MAIL, and as a result of much iteration, a Memorandum of Understanding for PAYWAND transition is drafted and is expected to be signed with MAIL in April 2012.



## Performance Management - ACE Progress against Targets

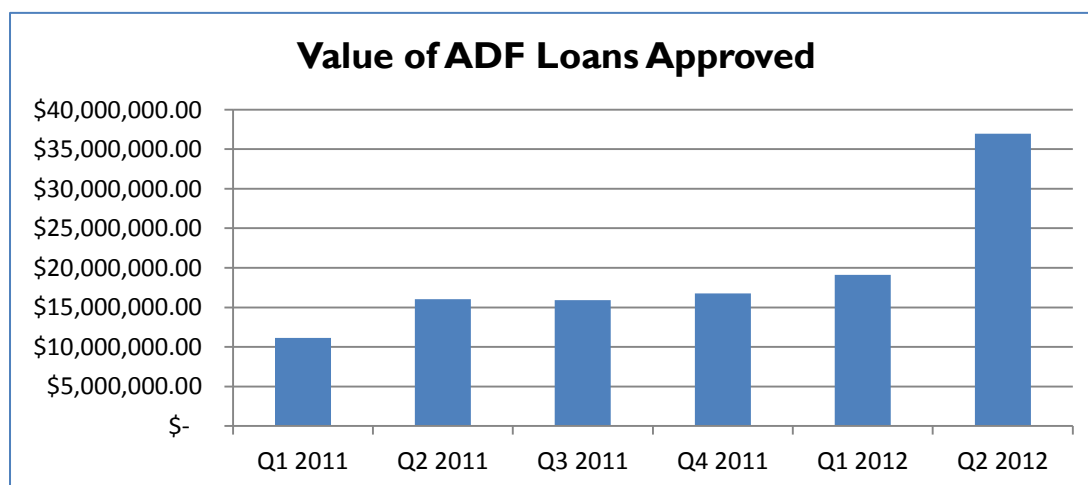
The ACE program placed a great deal of energy implementing a plan to track project's and clients' performance progress during this last quarter. The expansion in the ADF portfolio and the increase in the clients' base required increased coordination and superior efficiency in the allocation of human resources for the M&E team. Baselines for the project's direct beneficiaries (farmers) and impact surveys were carried out, whereas, separate data collection instruments were conducted to agribusinesses for the purpose of measuring impact. Systematic data collection and analysis according to a pre-determined timeline was also accomplished. Additionally, the project has achieved the establishment a robust M&E database, updated and maintained on a daily/weekly basis, which in conjunction with the PMP, creates a well integrated M&E system for the project.

### Quarterly Results

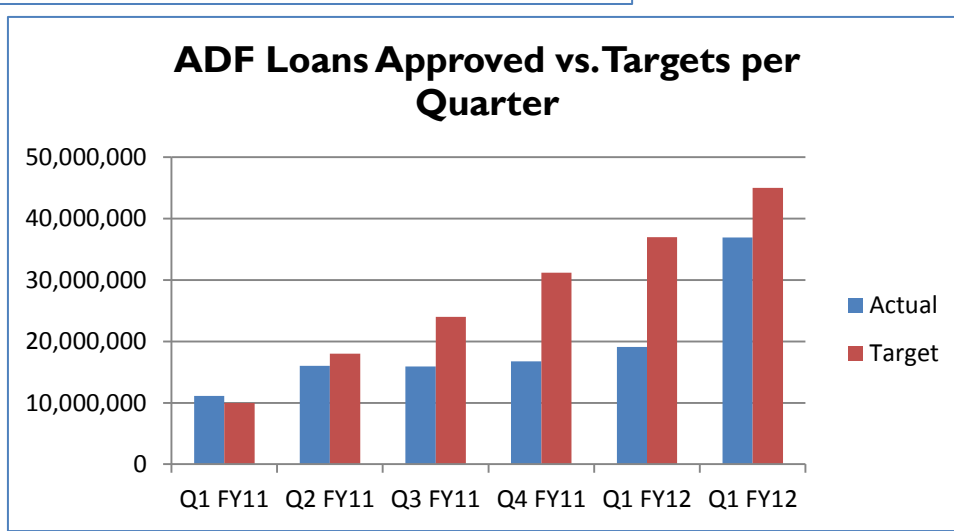
This section presents the progress of ACE from January 1st to March 31st, 2012. A description of the main accomplishments for each indicator is followed by a summary of quarterly result against planned targets.

**Indicator #1.1-** During the last quarter, ACE achieved additional ADF Credit Committee approval for 12 loans worth of over \$17.7 Million USD, the largest achievement in the history of the ADF. Still, due to the challenges and shortcomings in the previous quarters, ACE stands at \$37 Million USD in approved loans, versus the quarterly target of \$45 Million USD. Until now, this indicator target is achieved at 82%. At the end of the first quarter FY2012, ACE has \$18.9 million in ADF loan disbursements (sub-indicator # 1.1) versus the target of \$18 Million USD. The two graphs below show the ADF loans approved for each quarter; and the actual performance versus targets. Graph No.2 clearly demonstrates how ACE significantly closed the gap between actual and target in the reporting quarter for indicator #1.1.

Graph No 1: ADF Loans Approved per Quarter



Graph No 2: ADF Loans Approved per Quarter



**Indicator #1.2** – In the last quarter, ACE has 1,742 new direct farmer beneficiaries from Sayed Jamal Flour Mill and the Ghoryan Women Saffron Association in Balk and Herat Province. As per PMP indicator definition, this indicator tracks “the number of individuals benefitting from ACE/ADF loan agreements, therefore as stipulated in the previous quarterly reports, the number of loan agreements signed with agribusinesses and farmer beneficiaries will be counted against this indicator. Two agreements with agribusinesses were signed during the reporting quarter, Salahe Dekundiwal Brothers Agro Productions and Services Company and Herati Cashmere, the other companies are involved in on-lending. This brings the total number of individual loan agreements for the quarter to 1,744.

*Table 6: Q2 FY2012- Net Direct beneficiaries (farmers)*

No.	Company	Direct beneficiaries	Male	Female
1	Sayed Jamal Flour Mill	1,625	1,625	0
2	Ghoryan Saffron Women Association	117	0	117
	Total	1,742	1,625	117

Up to this point, the project directly benefitted a total 10,897 farmers whereas 14 additional agribusinesses have benefitted from ADF loan agreements. The table below shows ACE farmer direct beneficiaries disaggregated by Regional Command and Gender.

*Table 7: Actual Direct Beneficiaries per Regional Command*

Region	Total Direct Beneficiaries	Male	Female	Loan Disbursed in (\$)
RC - East	3,449	3,449	0	1,600,963.75
RC - North	4,655	4,653	2	4,563,763.03
RC - South	1,328	1,328	0	231,635.00
RC - West	1,465	1,328	117	1,110,633.07
Total	10,897	10,778	119	7,506,995

*Table 8: ACE/ADF approved and disbursed loans per Regional Command*

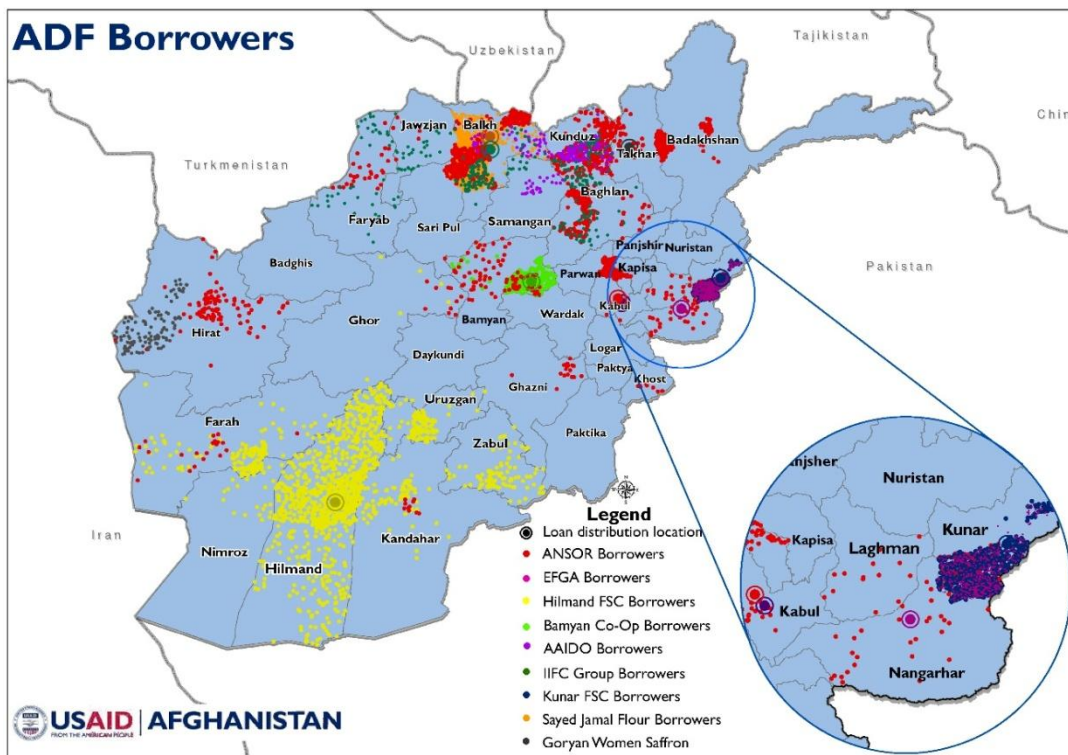
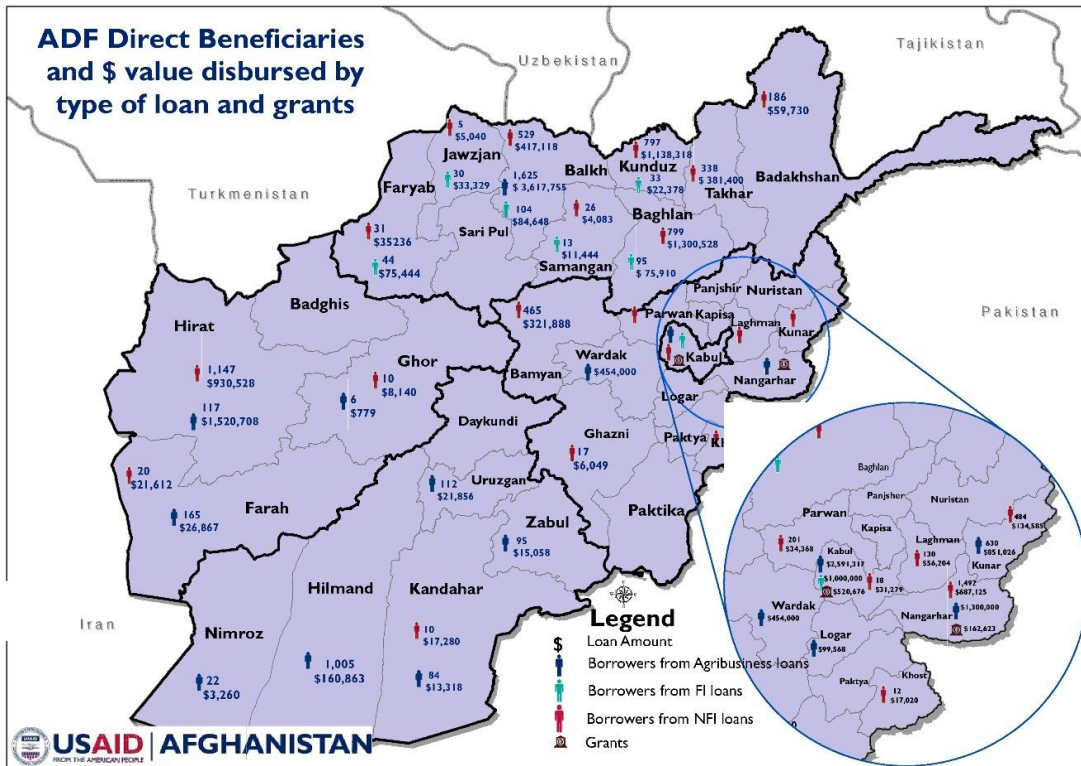
Region	Loan Approved (\$)	Loan Disbursed in (\$)	Beneficiaries
RC Central (Kabul)	\$ 15,447,416	\$ 3,885,630	18
RC East	\$ 5,826,143	\$ 3,960,588	3,431
RC North	\$ 9,962,145	\$ 8,298,574	4,655



<b>RC South</b>	<b>\$ 666,933</b>	<b>\$ 231,635</b>	<b>1,328</b>
<b>RC West</b>	<b>\$ 5,040,925</b>	<b>\$ 2,540,925</b>	<b>1,465</b>
<b>Total</b>	<b>\$ 36,943,562</b>	<b>\$ 18,917,352</b>	<b>10,897</b>

The Performance Indicator Data Sheet (Table No. 9) on page 40 shows the ACE quarterly accomplishments and the current cumulative actual performance against quarterly and annual targets. Below are some of the reasons ACE could achieve to meet the quarterly targets along indicators #1.1; #1.2 and #2.1.

- Despite the quarterly success in ADF loan approvals, the project ended the quarter with \$8 Million USD less than the target. This signifies a considerable reduction in the gap between the total loans approved and the target; compared to the \$18 Million USD of the previous quarter. The gap is inherited from last year's 1) lack of full cooperation from MAIL and infrequent or postponed ADF Credit Committee meetings; 2) the de-obligation of total cumulative of \$3.7 Million USD from the loans since the start of the project; and 3) the unavailability of ADF funds for disbursements.
- First the delay and then the inability of MAIL to disburse ADF lending funds through the Ministry of Finance during the February-March period caused delays in the disbursements to non-financial intermediaries and then to farmers. Examples of these are the loans to Helmand and Logar and Farm Service Centers, the two loans to AAIDO for exporters and agricultural inputs to farmers, and the loan to Qarizada Tomato Paste Production Company. All these disbursements were delayed by 1-2 months because of MAIL/MoF's inability to disburse the funds. The inability of MoF to disburse the loans and the significant delay in the disbursement delayed the on-lending process to farmers. Due to this reason, the direct beneficiaries of these intermediaries will be achieved in the next quarter.
- ACE has disbursed or committed approximately the full amount of \$24.7 million USD in available loan funds till now. Considering the potential liability to DAI derived from committing more funds than available under the ACE contract, the project is unable to sign any more loan agreements and therefore must suspend lending activities. While DAI may continue to identify and approve potential loan opportunities, doing so for an extended period of time without also issuing loans may damage the credibility of ACE and the ADF that has been established to date. Due to this limitation, during the reporting quarter, ACE adopted a very conservative approach with signing new grants agreement, aiming to allocate the remaining ADF funds for lending purposes only.





**Table 9: PERFORMANCE DATA QUARTER 2 FY2012**

<b>PMP INDICATOR</b>	<b>FY2011</b>	<b>Q1 FY2012</b>	<b>Q2 FY2012</b>	<b>Actual Q2 FY 2012</b>	<b>TARGET Q2 FY2012</b>	<b>Percentage</b>	<b>TARGET FY2012</b>
<b>1.1 Value of Finance Accessed in US dollars. (cumulative)</b>	16,746,562	19,104,562	36,943,562	<b>36,943,562</b>	<b>45,000,000</b>	82%	\$65,000,000
<b>Sub-indicator: Value of ADF loans disbursed in US dollars (cum)</b>	9,515,771	15,530,721	18,917,799	<b>18,917,799</b>	<b>18,000,000</b>	105%	\$25,000,000
<b>1.2 Number of individuals benefitting from ACE or ADF financial agreements</b>	8,720	447	1,744	<b>10,911</b>	<b>17,000</b>	64%	24,000
<b>Sub-indicator: Number of indirect beneficiaries achieved</b>	94,162	3,362	277	<b>97,801</b>	<b>34,000</b>	288%	48,000
<b>1.3 Percent Increase in income by assisted farms and agribusinesses</b>	-	-	-	-	-	-	10%
<b>1.4 Net total increase in FTE jobs created by USG sponsored agriculture activities</b>	171	242	180	<b>593</b>	<b>340</b>	174%	500
<b>2.1 Value of Challenge/Innovation and Agriculture modernization grants disbursed</b>	737,683	136,457	259,076	<b>1,133,216</b>	<b>4,000,000</b>	28%	\$9,500,000
<b>2.1 a (Sub-Indicator) Value of Challenge/Innovation (ADF) Grants approved</b>	607,970	12,297	63,032	<b>683,299</b>	<b>2,500,000</b>	27%	\$7,000,000
<b>2.1 b (Sub-Indicator) Value of Agricultural Modernization (ACE) grants approved</b>	129,713	124,160	196,044	<b>449,917</b>	<b>1,500,000</b>	30%	\$2,500,000
<b>2.2 Number of participating financial intermediaries and private intermediaries on-lending funds from ADF</b>	14	2	27	<b>43</b>	<b>17</b>	253%	19
<b>2.3 Number of innovative lending products established by PIs and Fis</b>	3	1	1	<b>5</b>	<b>3</b>	167%	4
<b>2.4 Percentage of loan losses resulting from ACE lending recommendations</b>	0	0	0	<b>0</b>	<b>&lt;5%</b>	-	<5%
<b>3.1 Percentage change in value of export of Afghanistan agriculture products for firms supported by ACE</b>	N/A	-	-	-	-	-	10%
<b>3.2 Number of loans approved under USAID's DCA mechanism</b>	0	0	0	<b>0</b>	<b>1</b>	-	1
<b>3.3 Number of public private partnerships formed as a result of USG assistance (including GDAs)</b>	0	0	0	<b>0</b>	<b>0</b>	-	0
<b>4.1 Number of conferences, workshops and other initiatives designed to foster increased credit to the agricultural sector</b>	3	1	1	<b>5</b>	<b>8</b>	63%	10
<b>4.2 Number of market information and market intelligence products created and disseminated by the established knowledge management</b>	13	3	3	<b>19</b>	<b>18</b>	106%	25
<b>4.3 Number of individuals trained by ACE in credit policy and operations, value chain strengthening, and market information syst.</b>	15	19	1	<b>35</b>	<b>32</b>	109%	60
<b>4.4 Number of person hours of training; including formal and practical training and technical visits</b>	74	127	20	<b>221</b>	<b>200</b>	111%	320

***Table 10: ADF Direct and Indirect Beneficiaries***

ADF LOANS		Direct Beneficiaries			Indirect Beneficiaries		
No	BORROWER	Approved	Disbursed to FIs	Disbursed to End Borrowers	Approved	Disbursed to FIs	Disbursed to End Borrowers
Clients Sensitive Information							

**Indicator #1.3** - Percentage increase in income by assisted farms and agribusinesses is an annual indicator which, as per PMP and the Annual Work Plan 2, will be reported in FY 2012.

**Indicator #1.4** - During this quarter, the number of new jobs created expressed in Full-Time Equivalent is 180. This increase counts for the new jobs created by agribusiness comprising full time, part time and seasonal jobs. As shown in the table below approximately 37% of the jobs created is for women.

*Table 11: New FTE Jobs Created in Q2 FY 2012*

No	Type of FTE	Male	Female	Total
1	Full Time Jobs	77.8	55.2	133
2	Part Time Jobs	33	0	33
3	Seasonal Jobs	2	12	14
<b>Total Q2 FY2012</b>		<b>112.8</b>	<b>67.2</b>	<b>180</b>

**Indicator #2.1** – In quarter 2 ACE approved three new grants, of which one ADF Challenge Grants and two ACE Agricultural Modernization grants for a total of \$268,044. A modification involving a reduction in the ADF challenge grant amount for ANSOR was approved.

*Table 12: New Grants Q2 FY 2012*

No	Company	Purpose	ADF Challenge	ACE AG. Modern.	Start Date	End Date	Grant Amount
Clients Sensitive Information							

**Indicator # 2.2** – The loans to the new Bamyan cooperatives and the AGF resulted in 21 new intermediaries. Also the loans to the new agribusinesses such as Qarizada Tomato Paste, Logar and Laghman FSC, Apple Association, Habib Omid and Afghan Rice Mill will be on-lent to farmers. For this purpose, ACE recognizes as non-financial intermediaries all the agribusinesses involved in on-lending to farmers. With these two new borrowers, ACE stands at a total of 43 intermediaries.

*Table 13: New participating intermediaries*

No	Name	Intermediary Type	Province	District	Loan Amount
Clients Sensitive Information					

**Indicator #2.3** – ACE launched a new innovative lending product during the reporting quarter. Wakala with Arbun is a product implemented with Afghan Rice Mill in Jalalabad. In the wakala transaction ADF appoints the client to undertake a specific service. A specified estimated return is due to ADF with any additional return on the service due to the client as an incentive for his efforts. In Wakala with arbun, the client agrees to make an advance payment to the farmers he/she purchases the raw materials from. The final price of the purchased raw material will be based on the price at the mandawi taking into consideration other factors such as transportation. This transaction type has not previously been applied by ADF or by the Afghanistan financial services industry.

**Indicator # 2.4** – All the ADF loans approved and signed to date have been repaid on time. (See Annex I for detailed information).

**Indicator # 3.1** – As per the newly approved PMP and Annual Work Plan 2, the percentage change in export sales for firms supported by ACE will be reported in FY2012. During Option Year 1, ACE will determine the baseline.

**Indicator # 3.2** - During this quarter there were no loans approved under USAID's DCA mechanism.

**Indicator #3.3** – Even though ACE has already developed several proposals, there were no formal Public-private partnerships formed during this period.

**Indicator #4.1** –In the fourth quarter, ACE organized one policy workshop to discuss the policy obstacles to the Edible Oil value chain growth. Descriptive information is provided in the Value Chain Strengthening section.

**Indicator # 4.2** – The ACE MIS unit launched three products in the last quarter; the Agricultural Trade Reports for Quarter 3; the Agricultural Trade Report with Russia 1389 and Edible Oil Sector Review. With these products, ACE stands at 19 market information and market intelligence products designed thus far.

**Indicator #4.3** – In the last quarter ACE trained six staff of the Farm Service Centre Association for Afghanistan (FSCCAA) in QuickBooks of which only one person was a first-time attendant. In the next quarter, ACE is organizing two training courses on Credit processes and Islamic lending; one agricultural value chain training and one study tour on MIS.

**Indicator # 4.4** – The project provided 19.5 hours of training in QuickBooks to members of FSCCAA in Kabul. In the next quarter, the project will organize at least three training curricula for the ADF technical staff.

### **Impact Level Figures**

Impact figures on the percentage change in income for the farmers benefiting from the ADF lending activities will be presented by the end of the fiscal year (2012), below are some impact figures focusing on several specific loan programs.

#### Javed Afghan Thresher Company

The Javed Afghan Thresher Company is one of the first large-scale manufacturers of wheat and rice threshers and farm trailers and received an ADF loan of \$300,000 in October of 2011. The loan enabled the company to increase their wheat and rice thresher production from 310 in the previous year to 400 threshers. This first loan enabled the company to create 67.5 new jobs (in FTEs), to increase the total production by 41 percent, and increase the total annual sales by 64 percent.

After successfully repaying the first loan, the Javed Afghan Thresher Company received a second ADF loan of \$900,000 USD to expand its market to other provinces of Afghanistan. After the initial three months of the loan implementation, the company created 24 new jobs and increased its production by 28 percent in comparison to the previous quarter. Javed Afghan Thresher Company is expanding their market by investing in promotion and live demonstrations to farmers and potential buyers in key regions. Reaching more provinces will enable the company to increase their market share and compete with imported threshers and agricultural machineries.

#### Hamid Flour Mill

The ADF loan of \$1.97 Million USD enabled the company to repay a commercial loan and to expand their business. One year after the disbursement of the loan, the company has created 15.6 new jobs (in FTEs), increased the total production of flour by 36 percent and increased total sales by 54 percent. The company has purchased wheat from about 125 farmers from the northern region.

#### Season Honey

The Season Honey Processing and Packaging Company received an ADF loan of \$100,000 USD to purchase 33,000KG of raw honey from 300 beekeeping farmers in Nangarhar region. Almost 11 months after the disbursement of the loan, the company created 14 new jobs and increased the total production by 24 percent. The loan helped the company by increasing the total sales by 27.7 percent. The company has indirectly supported over 150 beekeepers to date and expanded their markets to new provinces such as Balkh, Kunduz, Takhar, Baghlan and Kandahar.

#### Bamyan Cooperative Farmers

In the last year, seven Bamyan Cooperatives received a total ADF loan of \$269,910 to on-lend agricultural inputs such as high quality seeds and fertilizers to 383 potato growers in Bamyan. After the completion of the loan, the farmers benefiting from the ADF program had 22.3 percent higher yield and 39 percent lower production cost in comparison to non-borrowers. The successful implementation of the first loan and the results in production allowed the farmers to repay on time. This year, ACE is financing 27 potato cooperatives with a total loan of \$1.32 million USDA which will benefit over 700 farmers with potato seeds and fertilizers on credit.

#### Sanaizada Edible Oil Company

The Sanaizada Edible Oil Company received a \$200,000 ADF loan to purchase working capital and adopt new technology to improve edible oil production. Almost one year after the disbursement of the loan, the company created 38 new jobs (in FTEs) and increased the total production by 21.7 percent. The loan resulted in an increase of total sales for the company by 42 percent.

## Communication and Outreach

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Following the launch of PAYWAND, the Agricultural Knowledge Management Facility, ACE designed the January Brief on agricultural data and its uses. "Making Sense of Agricultural Data" is the newest ADF Brief available in three languages.

To promote the first ADF loan to women, through the Ghoryan Women Saffron Association, the February News Brief was entitled "Credit Gives Economic Freedom to Rural Women." The March News Brief covered ADF's awards to the Best Performance in Agriculture that recognized the drive, innovation and entrepreneurial spirit of successful agribusiness entrepreneurs at the annual Farmers' Festival 2012 that took place March 21 -23 at Badam Bagh Farm, Kabul province.

The success story submitted by ACE to USAID on "Agricultural Credit: A Smart Investment" was published in the USAID-Afghanistan website:

[http://afghanistan.usaid.gov/en/USAID/Article/2630/Agricultural\\_Credit\\_A\\_Smart\\_Investment](http://afghanistan.usaid.gov/en/USAID/Article/2630/Agricultural_Credit_A_Smart_Investment)

ACE revamped the ADF Website (visit: [www.adf-af.org](http://www.adf-af.org)). The new branding supports the ADF portfolio growth and strength of the program. The project published in hard copies and distributed the ACE/ADF Newsletter in English, Dari and Pashto, focusing on the latest achievements of the project.

Annual Farmers' Day Festival – March 21 – 23, Kabul. ACE sponsored the TV/Radio PSAs (Public Service Announcements) and publications of event brochures. This will be a unique opportunity for ADF clients to find new buyers and establish business relationships with farmer organizations and agribusinesses from all over Afghanistan; at the same time they will be able to show how agricultural credit is supporting their business.

Agricultural Shuras organized in Bamyan, Kandahar, Paktika, Logar and Wardak provinces, constitute one of the most effective ways of reaching out at new potential clients. To increase awareness on ADF financing opportunities and identify clients, the project will organize two new Shuras in Kunduz and Ghazni provinces in the next month.

## Administrative and Human Resources

In the reporting quarter, ACE made inroads in technical staffing. Two value chain strengthening specialists were hired to team up with the lending officers in Mazar-e-Sharif and Jalalabad, whereas a procurement assistant joined the operations team in Kabul.

ACE hired one expatriate Islamic Finance expert to train the ACE/ADF staff on Sharia compliant lending and design client legal documentation based on the requirements of each financial product. A team of three short term advisors, Steven Campbell, Information/Communication Technology specialist, Ajay Govinda Shrestha Duwal and Dinesh Kumar Rajbhandari MicroBanker, both MBWin consultants, joined the team to work on the ADF's financial software installation and configuration. David Fischer arrived in the country to assist ACE on value chain analysis and conduct capacity building activities for ACE/ADF and MAIL staff.

In the next quarter, ACE is planning to hire an Afghan National Islamic Finance expert, an Internal Auditor and an ADF Customer Service officer and an expatriate Data Analysis and Interpretation expert. In the next month, Michael Alcorn, Finance and Risk Assessment Expert will join the team to develop structured credit assessment tools, design guidelines and reporting templates. Rob Dressen will also join ACE with two fundamental objectives: 1) to conduct the Credit training and 2) to lead the discussion on the ADF transition with MAIL and USAID.

**TABLE 14: Afghan National personnel deployed during Quarter I FY2012**

No.	Name	Position	Start Date
1	Ghulam Hazrat Samim	Value Chain Specialist- Mazar	04-March-12
2	Amanullah Fahim	Value Chain Specialist - Jalalabad	04-March-12
3	Shafiaullah Maliayar	Procurement Assistant	29-March-12

**TABLE 15: Expatriate personnel deployed during Quarter I FY2012**

No	Name	Position	Date
1	Natalie Schoon	Islamic Finance Advisor	21- Feb- 12
2	Steven Campbell	ICT Consultant	11-Mar-12
3	Ajay Govinda Shrestha Duwal	MBWIN Consultant	26-Mar-12
4	Dinesh Kumar Rajbhandari	MBWIN Consultant	26-Mar-12
5	David Fischer	Value Chain Advisor	28-Mar-12

## ACTIVITIES FOR THE NEXT QUARTER

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- In the next quarter, ACE aims to present loan packages worth over \$18 million USD to the ADF Credit Committee meeting.
- ACE will conduct an Agriculture Value Chain training for MAIL staff members which will take place on April 8-12, 2012; two separate training schedules on Islamic Lending for lending advisors (April 12-May 14) and value chain and credit administration staff (April 10); and a Credit Training which will take place in early May.
- The project will organize a study tour for the MAIL/MIS department staff to Ghana in late April.
- ACE will develop structured credit risk assessment tools to support loan decision making and facilitate ongoing monitoring of the ACE/ADF loan portfolio. The risk assessment tools will be customized to address specific risks relevant to various types of ACE/ADF borrowers including agribusinesses, financial institutions, and non-financial intermediaries.
- The project will complete the installment and customization of the ADF portfolio management system, the FAO-GTZ Micro Banking System. Intensive training will be delivered to the main users of the system, primarily targeting Credit Administration Unit and CMU coordinator.

## ANNEX I – Percentage of Loan Losses Resulting from ACE Lending Recommendations

SN	Name of Business	Province	District	Amount (\$)	Type of Business	Start Date	End Date	Actual Amount Disbursed	Repayments schedule (m/d/y)	Expected Value (\$) to date	Actual Value (\$) to date	Percentage Loss
Clients Sensitive Information												